

Commonwealth of Kentucky Personnel Cabinet

Overview of the Public Employee Health Insurance
Program

Fourth Annual Report

May 24, 2005



Discussion Items

- Report Purpose and Content
- Overview of Board Recommendations
- Highlights of 2003 PEHI Experience

Report Purpose and Content

- Prepared annually for the Governor, General Assembly and Chief Justice of the Supreme Court in accordance with provisions of KRS 18A.226(5)(b)
- Report was prepared by Mercer Human Resource Consulting on behalf of the Board
- Summarizes experience for PEHI during calendar year 2003
- Provides Board recommendations and commentary
- Summarizes legislated health insurance benefits mandates

Overview of Board Recommendations

- The Board developed recommendations in four categories:
 - Consumer Information and Education
 - Health Benefit Provisions
 - Program Governance
 - Program Administration

Consumer Information and Education

- Issues:
 - Little information is currently available to members about health care services, quality, price, or value
 - PEHI members could benefit from health promotion and wellness given the overall poor health status of Kentuckians
 - Studies indicate that 50% of a person's health status is affected by their behavior and lifestyle choices

Consumer Information and Education

- Recommendations:
 - Investigate ways to promote PEHI member access to information:
 - Quality and cost data
 - Alternative health services and prescription drugs
 - Educate PEHI members:
 - The impact of healthy lifestyle choices
 - Management of chronic health conditions
 - Making informed health care decisions
 - Actively promote initiatives supporting healthy lifestyle behaviors

Health Benefit Provisions

- Issues:
 - With the exception of the dependents' contributions, the PEHI benefits provisions are more generous than the median of the large employer and state government employer markets nationally
 - Some board members feel that the benefits should be viewed in terms of total compensation, and therefore should be above the median in order to attract and retain employees

Health Benefit Provisions

- Recommendations:
 - View the competitiveness of the benefits in the context of total compensation
 - Explore ways to minimize employees' expenditures when revenues become available
 - Study health reimbursement accounts (HRAs) to determine if these accounts would provide a benefit to employees and reduce employer cost

Program Governance

- Issues:
 - Retirees and covered dependents are a growing percentage of PEHI members (14% in 1999 and 20% end of first quarter 2004)
 - Given age and health care cost for this population, they significantly impact the PEHI program costs
 - The impact is exacerbated by entities whose retirees participate in the program while actives do not – “unescorted” retirees
 - Cost for this group in 2003 was estimated to have increased total program cost by 3.3% (21.8 million) over what it would have been had the “unescorted” retirees not participated

Program Governance

- Issues (Cont.):
 - The board is required to submit it's report by October 1 each year. Contracts for the PEHI program were not executed until mid August.
 - The Board had a very short timeframe to develop the report given the significant changes occurring in the 2005 program

Program Governance

- Recommendations:
 - To protect the financial integrity of the program, entities whose retirees participate and actives do not will be responsible for the actuarial difference in program cost contributed by their retirees
 - The Board's submission deadline for its' annual report be revised from October 1 to December 1

Program Administration

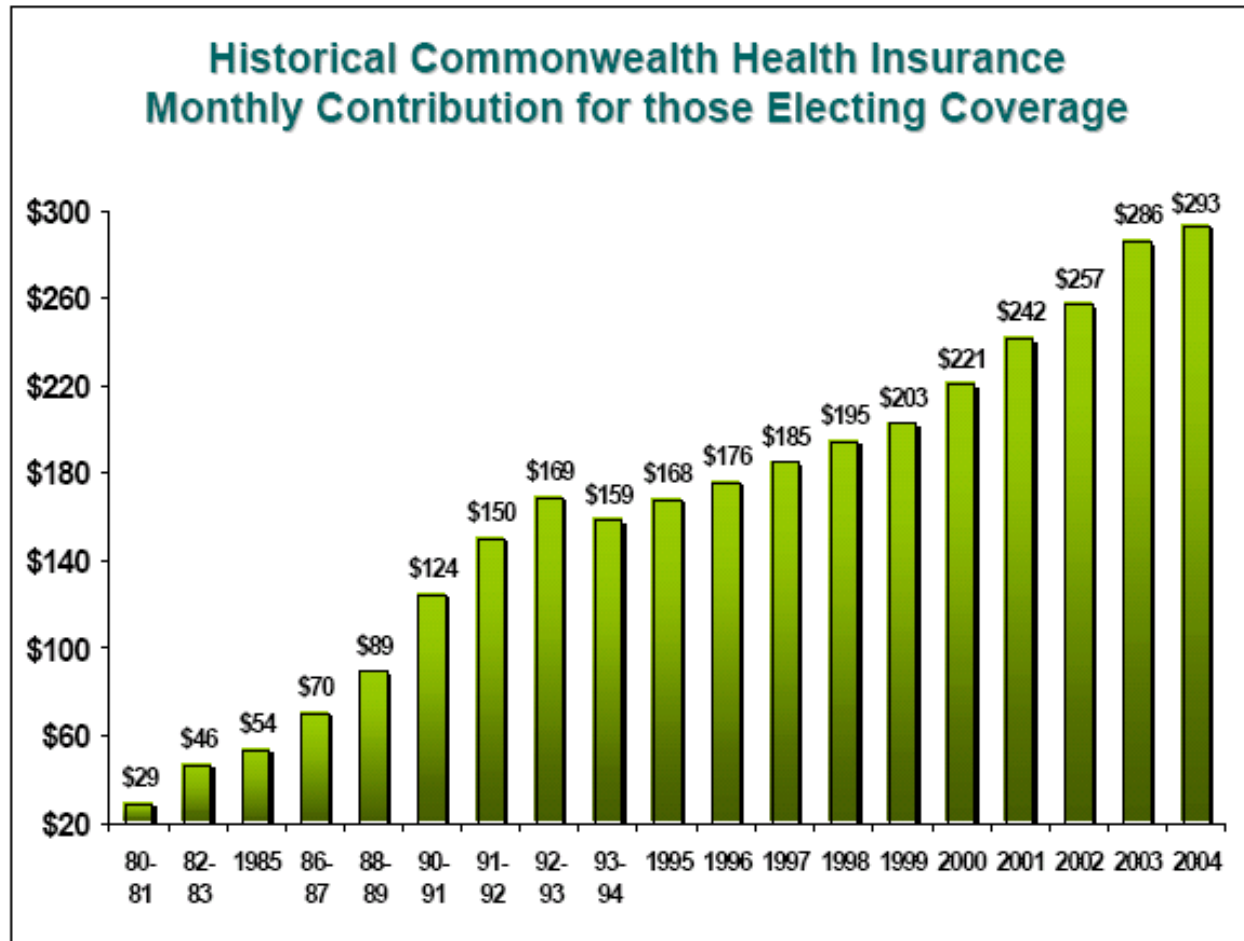
- Issues:
 - To encourage insurers and TPAs to provide good quality service, performance guarantees with monetary penalties have been incorporated into health insurance contracts
 - The Board feels that this effort can be improved if audits were conducted by the Commonwealth or a third party periodically to verify performance results

Program Administration

- Recommendations:
 - As part of continuous quality improvement, conduct audits to validate financial and performance results reported by insurance carriers and TPAs
 - Meaningful penalties should apply to sub-standard performance

Highlights of 2003 Experience

Exhibit I



Source: Personnel Cabinet

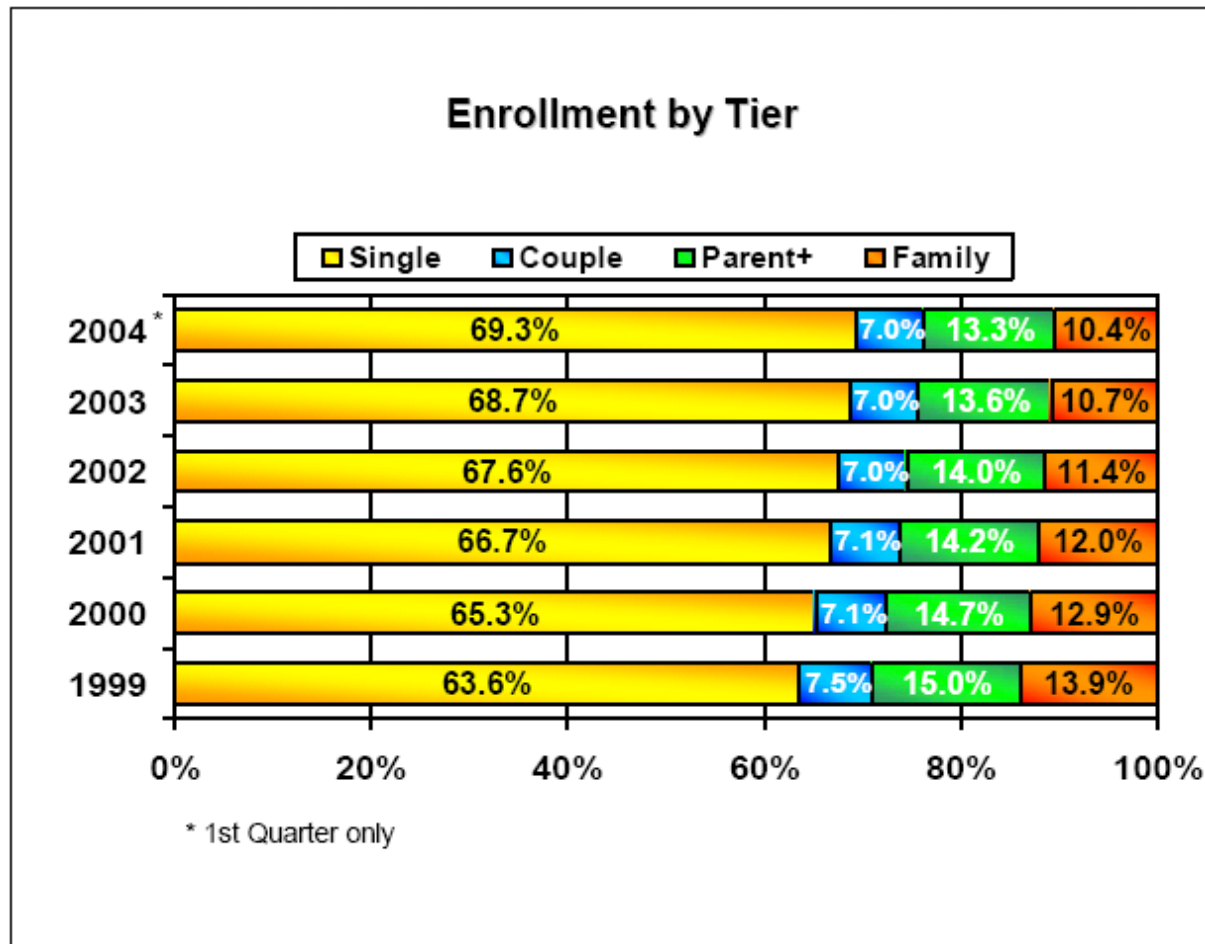
Highlights of 2003 Experience

Exhibit IV

Public Employee Health Insurance Program Historical Experience						
	2001	% Change	2002	% Change	2003	% Change
Medical Claims	\$399,320,673	12.4%	\$453,556,171	13.6%	\$515,011,299	13.5%
Rx Claims	\$104,247,320	20.6%	\$123,337,035	18.2%	\$145,208,960	17.7%
Total Claims	\$503,567,993	14.0%	\$576,893,206	14.6%	\$660,220,260	14.4%
Premiums Paid	\$558,002,180	9.1%	\$627,827,924	12.5%	\$694,293,552	10.6%
Covered Lives	225,623	(0.1%)	225,784	0.0%	226,399	0.3%
<i>Per Covered Life</i>						
Medical Claims	\$147.49	12.5%	\$167.40	13.5%	\$189.57	13.2%
Rx Claims	\$38.50	20.8%	\$ 45.52	18.2%	\$ 53.45	17.4%
Total Claims	\$185.99	14.1%	\$212.92	14.5%	\$243.02	14.1%
Premiums Paid	\$206.10	9.2%	\$231.72	12.4%	\$255.56	10.3%
Loss Ratio ¹	90.2%		91.9%		95.1%	

Source: Claims reported by the Commonwealth's insurers and enrollment reported by the Department for Employee Insurance compiled by MedStat.

Highlights of 2003 Experience



Source: Commonwealth's enrollment reported by the Department for Employee Insurance and aggregated by MedStat.

In Closing

- The October 1, 2004 Annual Report provided several recommendations for changes to the PEHI Program:
 - Provide useful communication and education to members to help them make better health care decisions
 - Consider benefits within the context of total compensation
 - Consider ways to mitigate the impact of retiree costs on the overall program cost
 - Improve program administration through insurer/vendor performance audits